



Congressional Budget Office

**Presentation at the
Federal Reserve Bank of New York**

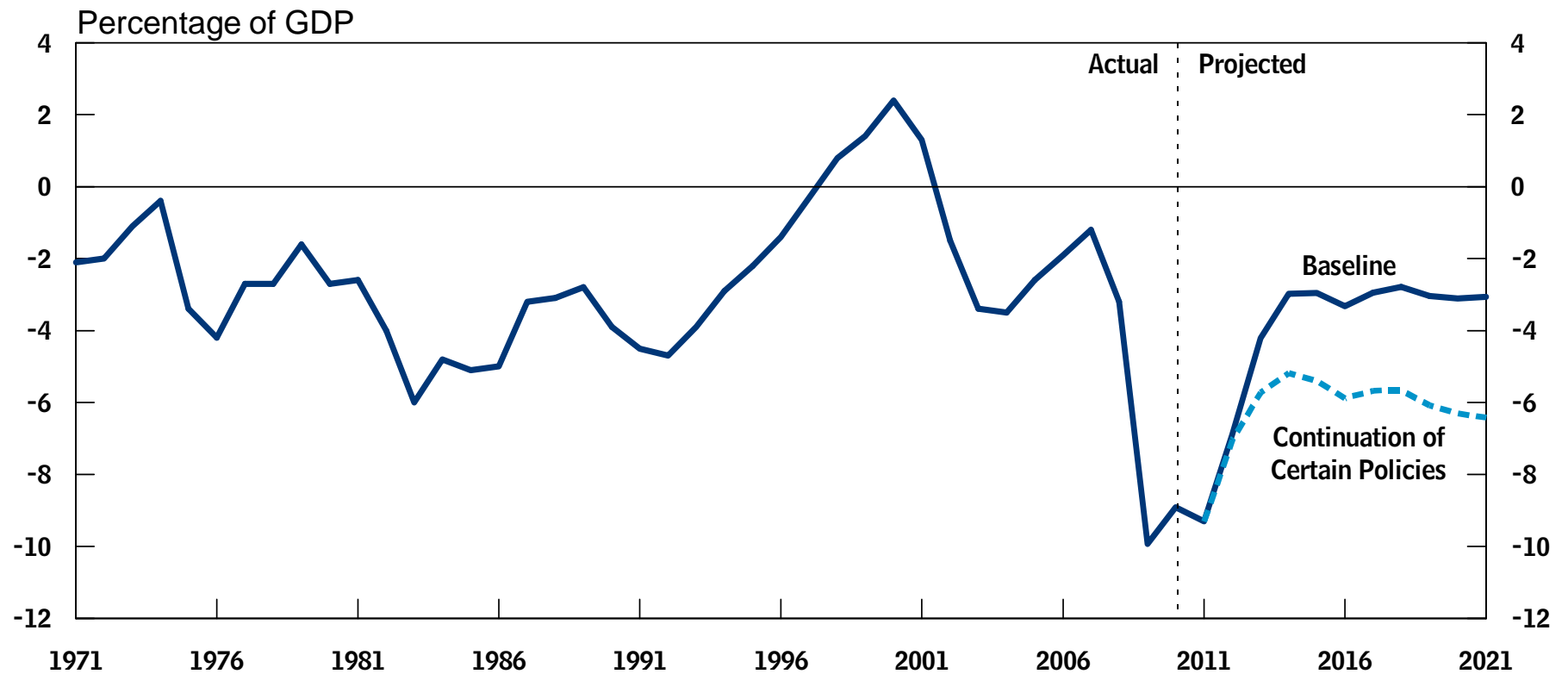
**Federal Budget Math:
We Can't Repeat the Past**

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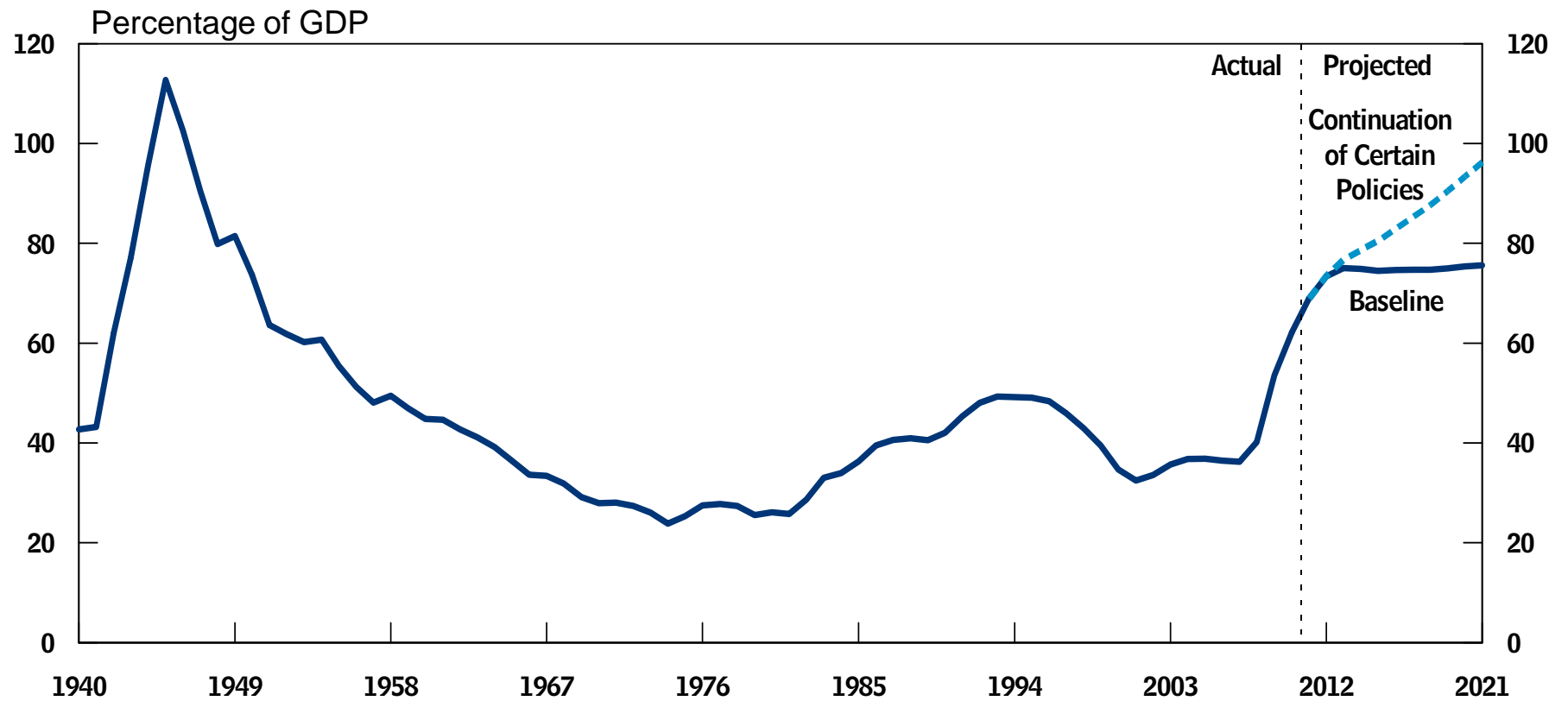


Total Federal Deficits and Surpluses





Federal Debt Held by the Public



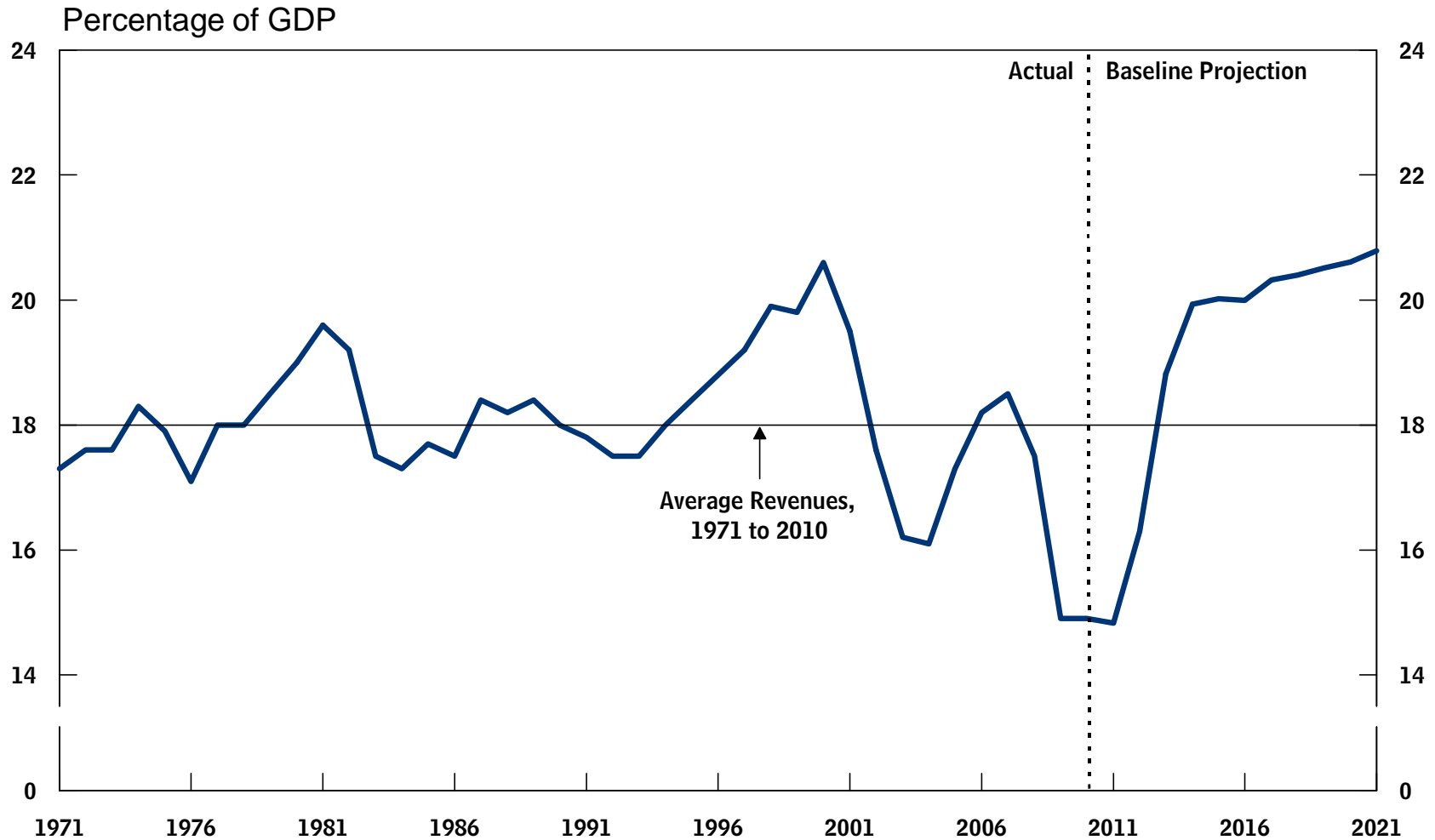


Key Aspects of Federal Budget Policy during the Past 40 Years

- Revenues have averaged about 18 percent of GDP, with substantial variation around that level but no trend.
- Older Americans have received:
 - Cash payments that have risen with average wages (through Social Security),
 - Health insurance with a significant defined-benefit subsidy (through Medicare), and
 - Additional subsidies for health insurance and subsidized long-term care (through Medicaid) for many of those with very high medical costs or little income and assets.
- Defense spending has trended down relative to GDP.
- Outlays for all other federal programs have shown substantial variation relative to GDP and a slight downward trend.

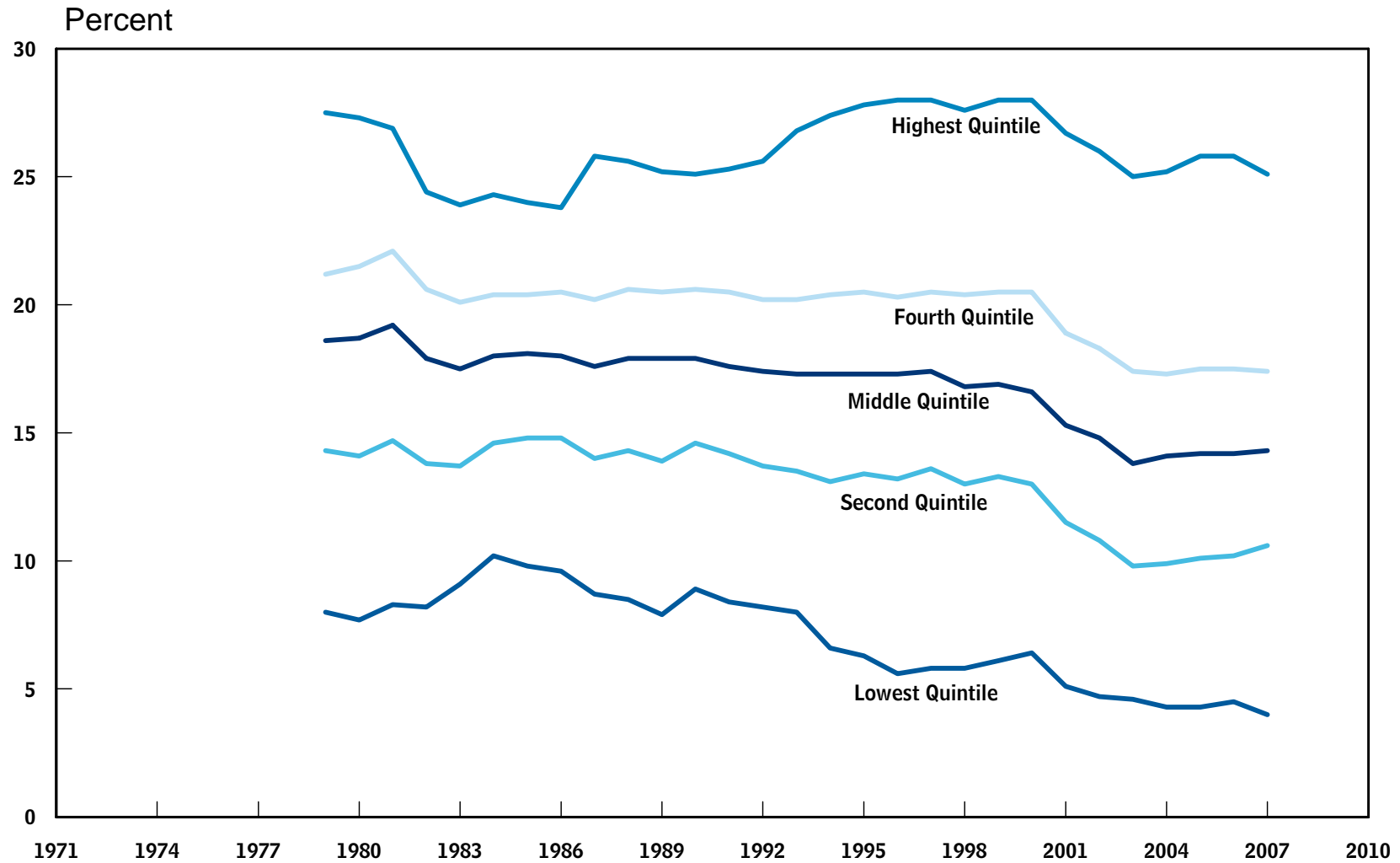


Total Federal Revenues



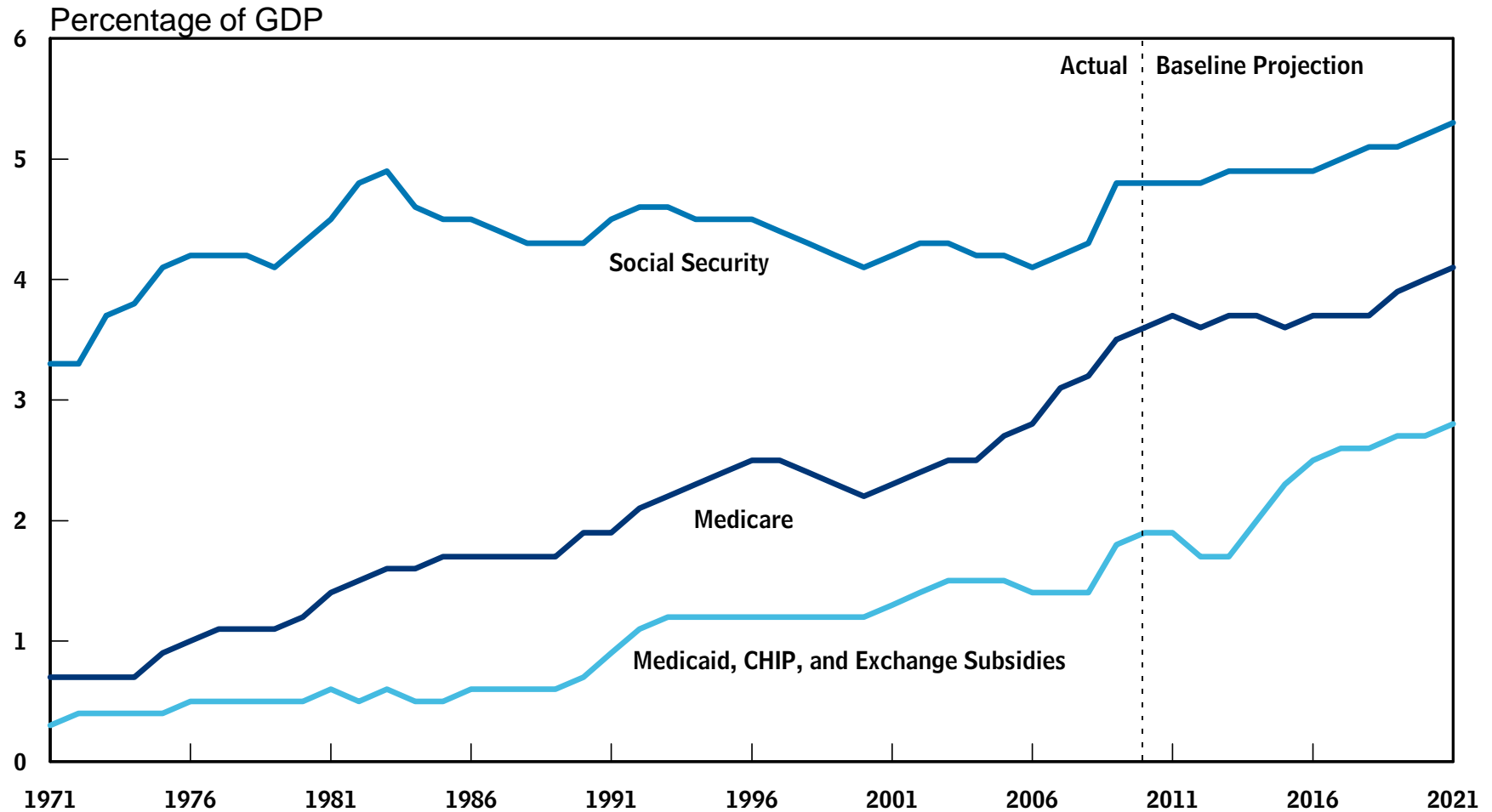


Average Federal Tax Rates by Quintile



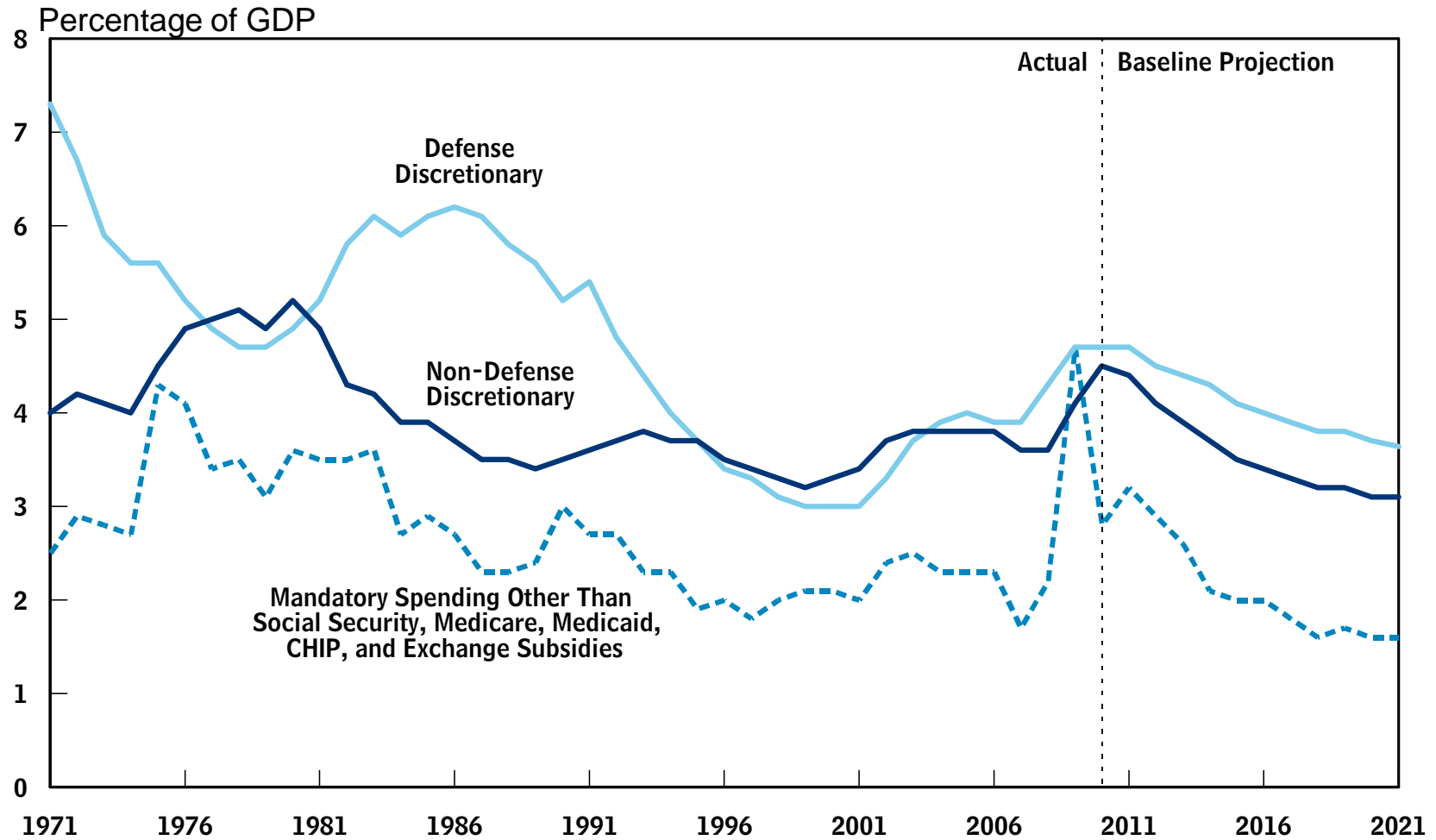


Outlays for Social Security and Major Health Care Programs



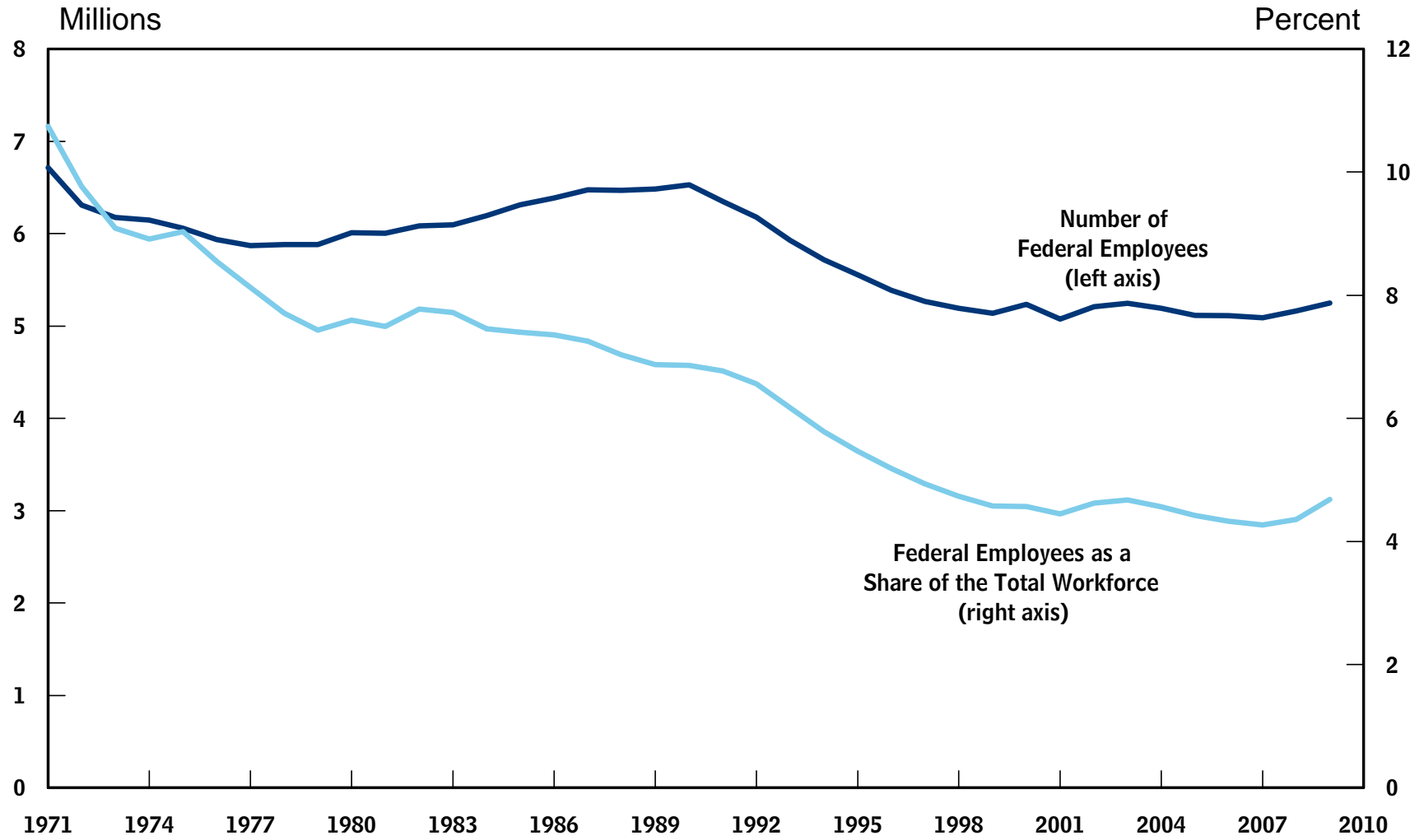


Other Components of Federal Spending





Federal Employees





Shares of Federal Spending in 2010

	Percent
Transfer payments to people in the United States	47
Grants to state and local governments	14
Purchases of goods and services for defense	19
Purchases of goods and services for nondefense	9
Interest	8
Other (includes transfers to people outside the U.S.)	4

Source: National Income and Product Accounts.



Trends in Federal Spending during the Past 40 Years

- The costs of Social Security, Medicare, Medicaid, and the Children's Health Insurance Program have risen substantially relative to GDP, from 4.3 percent in 1971 to 8.7 percent in 2007 (before the recession).
- Defense spending has fallen substantially relative to GDP, from 7.3 percent in 1971 to 3.9 percent in 2007.



We Cannot Repeat the Past in the Federal Budget

Given the aging of the population and the rising cost of health care, the United States cannot achieve all of the following objectives in the future:

- Keep federal revenues at their average share of GDP during the past 40 years.
- Provide the same sorts of benefits for older Americans that we have provided in the past 40 years.
- Operate the rest of the federal government in line with its role in the economy and society during the past 40 years.



Components of the Federal Budget (percentage of GDP)

	1971-2010 Average	2021 March Baseline Projection	2021 President's Budget Estimate	2022 Ryan Proposal Estimate
Revenues	18.0	20.8	19.3	18 1/2
Outlays	20.8	23.9	24.2	20 1/4
<i>Noninterest outlays</i>	<i>18.6</i>	<i>20.5</i>	<i>20.3</i>	<i>17</i>
<i>Interest</i>	<i>2.2</i>	<i>3.4</i>	<i>3.9</i>	<i>3 1/4</i>
Deficit	2.8	3.1	4.9	2

Note: The Ryan proposal was estimated relative to an earlier baseline, so the figures are not precisely comparable to the latest baseline projection or estimates for the President's budget.



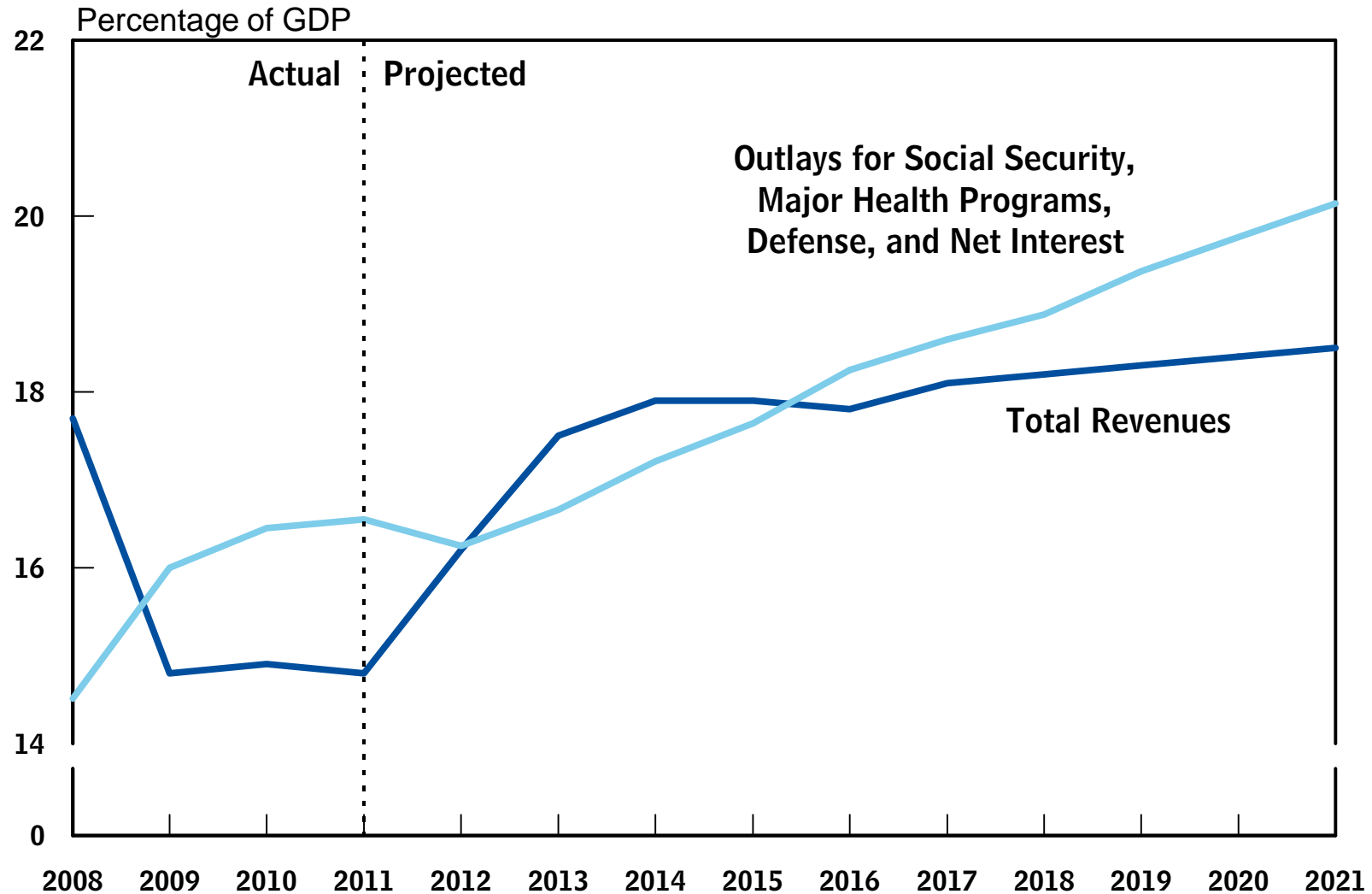
Noninterest Outlays (percentage of GDP)

	1971-2010 Average	2021 March Baseline Projection	2021 President's Budget Estimate	2022 Ryan Proposal Estimate
Noninterest Outlays	18.6	20.5	20.3	17
<i>Social Security</i>	4.3	5.3	5.3	5 1/4
<i>Major health programs</i>	2.9	6.9	7.1	5 1/2
<i>Defense</i>	4.8	3.6	3.1	} 6
<i>Other mandatory spending and nondefense discretionary spending</i>	6.7	4.6	4.8	

Note: Major health programs include Medicare, Medicaid, the Children's Health Insurance Program, and exchange subsidies. The Ryan proposal was estimated relative to an earlier baseline, so the figures are not precisely comparable to the latest baseline projection or estimates for the President's budget.



Outlays for Major Programs Compared with Total Revenues Under a Continuation of Certain Policies





The Choices Confronting Policymakers

- The question is not whether to change current policies, but when and in what ways.
- There are trade-offs regarding the timing of implementing policy changes, but there are important benefits and few apparent costs to deciding about those changes soon.
- Fiscal policy cannot be put on a sustainable path just by eliminating waste and inefficiency; instead, changes will need to significantly affect popular programs, people's tax payments, or both.